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BANKING ACQUISITION MODEL FOR BANK BJB (CASE STUDY ACQUISITION OF PD BPR LPK IN WEST JAVA)

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Abstract— *To facilitate the credit loans for micro, small, and medium enterprise, the Government of West Java encourage the unification of business between PT. Bank Pembangunan Daerah Jawa Barat dan Banten (BJB) with PD. Bank Perkreditan Rakyat Lembaga Perkreditan Kecamatan (PD. BPR LPK). The Regulation of West Java Province No. 30 0f 2010 stated that BJB should increase their share ownership in PD. BPR LPK to 51%. BJB must do the acquisition of all PD. BPR LPK in West Java. The acquisition is in line with BJB's plan to expand their bank's network and credits. The analysis was carried upon twenty-one PD. BPR LPK in Cianjur, Garut, and Subang Regency. Before the acquisition, due diligence is conducted to assess the level of bank soundness. BJB will only acquire PD. BPR LPK that at least have moderately healthy predicate. To determine the acquisition cost, the valuations of company's asset were done using book value valuation method. There are two scenarios that can be used as an acquisition model. In scenario A, BJB directly acquire all of the twenty-one PD. BPR LPK. In scenario B, each PD. BPR LPK in the same regency first conducting a merger, afterwards BJB will perform the acquisition of all merged PD. BPR LPK. The acquisition cost in scenario B is greater than the acquisition cost in scenario A, but scenario B has more bank networks. Scenario B is chosen with the total cost of acquisition Rp18,184,774,278.*

Keywords: PD. BPR LPK, acquisition, merger, bank soundness, book value valuation method

I. INTRODUCTION

PT Bank Pembangunan Daerah Jawa Barat dan Banten, Tbk which is known as bank **bjb**, is a commercial bank owned by The Provincial Government of West Java, Provincial Government of Banten, all cities and regencies government in West Java and Banten areas, and public. Bank BJB serves private customers, cooperatives, local enterprises (BUMD), state enterprises (BUMN), and other institution both government and private. To achieve its vision and mission, Bank BJB conducts several business activities includes funding, lending, and other banking services, such as mutual funds, and bancasurance.
In 2010, West Java Government release Regulation Number 30 of 2010 that increasing BJB share ownership in Perusahaan Daerah Bank Perkreditan Rakyat Lembaga Perkreditan Kecamatan (PD. BPR LPK) from 15% to 51%. The regulation is released to encourage the business unification between BJB and BPR. In other hand, BJB also needs to expand their bank networks and its credit expansion. From the company's 2011 annual report known that the BJB having placements in other bank for Rp 7,8 trillion that can still be used on credit loans.

Bank Perkreditan Rakyat (BPR) is banks that carry out business activities in a conventional manner or based on the principle of sharia which in its activities do not provide services in traffic payment. PD. BPR LPK is owned by three parties, namely: The Provincial Government, Municipal or District Government, and The Regional Development Banks (Bank Pembangunan Daerah). BPR focus on banking services for the community such as farmers, ranchers, fishermen, merchants, small entrepreneurs, employees, and retirement.

II. BUSINESS ISSUE EXPLORATION

A. Conceptual Framework

West Java Government has a long term plan to unite all the Perusahaan Daerah Bank Perkreditan Rakyat (PD. BPR) in West Java Province as one PT. BPR Jawa Barat. To become PT. BPR Jawa Barat, the West Java Government demands all PD. BPR LPK in the same regency to do a merger. After the mergers, there will be just one PD. BPR LPK in one regency that will make the long term plan easier to be done. The regulation has been issued to regulate the mergers between PD. BPR in West Java Province.

Based on the newest regulation, Regulation of the Government of West Java Number 30 of 2010 Article 5a states that the composition of share ownership after consolidation or merger between BPR in West Java province is as follow:

- West Java Provincial Government by 20% (twenty percent)
- Sub district Government by 29% (twenty-nine percent)
- PT. Bank Pembangunan Derah Jawa Barat dan Banten by 51% (fifty-one percent).

Referring to the regulation, PT. Bank Pembangunan Derah Jawa Barat dan Banten (BJB) must add its share ownership from 15% to 51%. After the addition of ownership to 51 %.

From the management of BJB, it is known that the bank have a plan to expand their bank networks and its credit expansion since the bank having placements with Bank Indonesia and other bank for Rp 7,8 trillion that can still be used on credit loans.

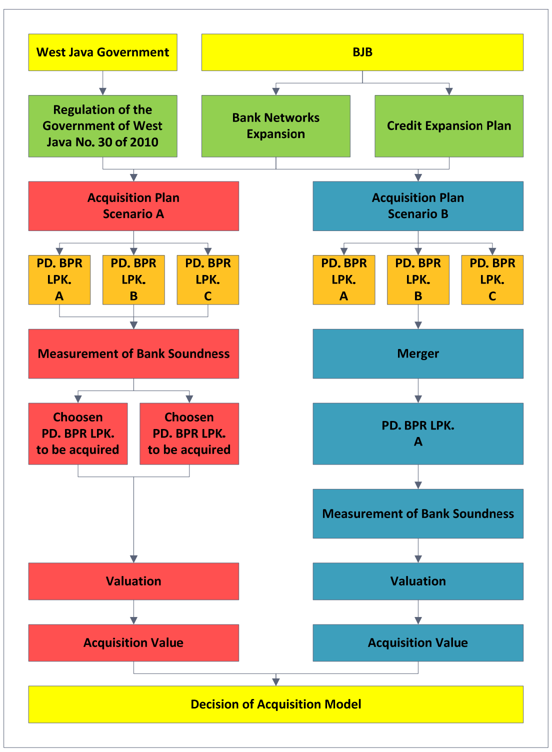

Figure 1. Map Scheme of Conceptual Framework

BJB want to further develop their loans to micro, small and medium enterprises in order to support the development of business units. Rather than opening some new branch in a lot of different places in the region across the West Java Province, BJB prefer to acquire a number of BPR that is indeed focus on granting credit to the micro, small and medium enterprises.

For those reasons, BJB have a plan to add its share ownership in PD BPR LPK through an acquisition plan. Before the acquisition, BJB will conduct due dilligence to all of the PD BPR LPK financial statement to get the measurement of the bank soundness. BJB will only perform the acquisition of PD BPR LPK that fall within the criteria moderately healthy bank (*kriteria cukup sehat*). After the assessment, then BJB have to do the valuation to value the asset of PD BPR LPK, so BJB will know how much the fair cost that they have to pay for the addition of share ownership in PD BPR LPK.

There are twenty-one PD. BPR LPK will be analyzed for acquisition. The banks are located in Cianjur Regency, Garut Regency, and Subang Regency.

B. Problem Identification

There are some problems that have to be solved in order for BJB to acquire PD. BPR LPK. Those problems are:

1. To choose the best acquisition scenario for PT. Bank Pembangunan Derah Jawa Barat dan Banten (BJB).
2. To assess the bank soundness of PD. BPR LPK in several district of West Java.
3. To choose which PD. BPR LPK that must be acquired by PT. Bank Pembangunan Derah Jawa Barat dan Banten (BJB).
4. To determine the value of several PD.BPR LPK as the acquired firms.
5. To determine the acquisition cost that PT. Bank Pembangunan Daerah Jawa Barat dan Banten (BJB) must pay to acquired PD. BPR LPK.

C. Method of Data Collection and Analysis

The research is conducted by processing the data in the form of financial statement that were obtained from Bank Indonesia and the quality of productive assets report that were obtained from every PD. BPR LPK in Cianjur, Garut, and Subang Regency.

The data is analyzed by calculating the financial ratio in order to know the bank soundness. To know the value of the acquired company, company valuation was done by book value valuation method.

D. Due Dilligence and Valuation of the Firm

Before the acquisition, the assessment of the bank soundness as a part of due diligence is done to determine the bank predicate: healthy, moderately healthy, less healthy, or not healthy. The measurement of bank soundness for BPR in this research is measured by various aspects: capital, the quality of productive asset, earnings, and liquidity. The bank soundness can be obtained by calculated the component credit value of each ratio. The following are the aspects of the bank soundness assessment.

1. Capital
   Capital adequacy ratio (CAR) is used as a tool to assess the capital. According to Bank Indonesia Regulation Number 8/18/PBI/2006 of 5 October 2006 Concerning Capital Adequacy Ratio for Bank Perkreditan Rakyat, to maintain its liquidity, BPR is required to meet the CAR of at least 8% counted from the comparison between the equity and weighted asset according to its risk. The calculations of weighted asset according to its risk are based on Bank Indonesia Circular Letter Number 8/28/DPRB of 12 December 2006. In accordance with Bank Indonesia Directors Decree Number 30/12/KEP/DIR 30 April 2007, after calculating CAR, a credit value must be calculated.
2. Asset

There are two ratios used to assess the asset's quality:

a. Non-performing Loan (NPL)
   Asset's quality reflected in non-performing loan ratio (NPL) that counted by comparing the number of non performing loan by the total loan. The calculations are based on Bank Indonesia Circular Number 3/30/DPNP December 14, 2001 concerning Guidelines for the Financial Ratio Calculation. BPR is required to meet the NPL less than 5%. After calculating NPL, a credit value must be calculated. If the result of NPL is 22.5% or more, the credit value is 0. For every 0.15% decline from 22.5% the credit value will increased by 1 point, with 100 as a maximum value.
b. Allowance for Productive Asset Disposal Ratio (APADR)
   Allowance for productive asset is an allowance that must be formed for a certain percentage of the amount of collateral based on the classifications of productive assets quality. The allowance is formed to anticipate the possibility of uncollectible fund that has been allocated in productive assets. Bank with higher non performing loan will have higher allowance for productive asset, because of the bad collectability of the productive asset (Rivai, et.all. 2007). If the result of the ratio is 0%, it will be given 0 credit value, and for every 1% increase from 0, one point will be added to the credit value with 100 as the maximum value.

3. Profitability (Earnings)
   There are two ratios to measure the bank's profitability:
   a. Return on Asset (ROA)
      Return on Assets (ROA), measures the effectiveness of the company in utilizing all resources in order to measure the ability to generate profits. The higher this ratio, meaning the more effective use of assets to obtain income and the better the performance of the bank (Sumachdar, Hasbi, 2011). To be categorized as healthy bank, BPR is required to have ROA more than 1.3%. Ratio with 0% or negative value will be given 0 credit values, and for every 0.015% increase from 0% will be given an additional 1 credit value with 100 as a maximum value.
   b. Operating expenses per operating revenue (OEOR)
      Operational expense per operational revenue is the other ratio that used to make an earning valuation. To be categorized as healthy bank, BPR is required to have OEOR less than 93.5%. Ratio with 100% value or more will be given 0 credit value, and for every 0.08% decline, an additional 1 credit value will be added with 100 as a maximum value.
4. Liquidity
   Liquidity assessment evaluates the bank ability to maintain adequate levels of liquidity and the adequacy of liquidity risk management.
   a. Cash Ratio
      Cash ratio is used to measure the bank ability to pay the customer's saving or deposit's withdrawal with their current assets. Ratio with 100% value or more will be given 0 credit value, and for every

0.08% decline, an additional 1 credit value will be added with 100 as a maximum value.

b. Loan to Deposit Ratio (LDR)
Loan to deposit ratio (LDR) measures the bank ability to repay the bank withdrawals by customer with relying on loans as a source of liquidity (Sumachdar, Hasbi, 2011). To be categorized as healthy bank, BPR is required to have LDR from 80% to 95%. Ratio with 115% value or more will be given 0 credit value, and for every 1% decline from 115% will be given 4 additional credit values with 100 as a maximum value.

After all the financial ratio and credit component value has been calculated, each of the credit component value must be weighted by a certain percentage to get the cumulative credit value. The weight percentage used in this research is not the same with the regulation, because this research is not doing the valuation to the bank risk management. The weight for the assessment factor is recalculated after omitting the weight for the risk management assessment.

TABLE I. MODIFIED WEIGHTS FOR ASSESSMENT OF BANK SOUNDNESS

No.	Assessment Factor	Assessment Ratio	Weight
1.	Capital	CAR	37.50%
2.	Assets	NPL	31.25%
		APAR	6.25%
3.	Earnings	ROA	6.25%
		OEOR	6.25%
4.	Liquidity	Cash Ratio	6.25%
		LDR	6.25%

(Source: Bank Indonesia Circular Number 30/3/UPPB 30 April 1997, modified)

The component credit value of each ratio then will be multiplied by the weight value to get the cumulative credit value that can be used to measure the bank soundness.

TABLE II. THE PREDICATE OF BANK SOUNDNESS

No.	Cumulative Credit Value	Predicate
1.	≥ 81 up to 100	Healthy
2.	≥ 66 up to < 81	Moderately Healthy
3.	≥ 51 up to < 66	Less Healthy
4.	< 0 up to < 51	Not Healthy

(Source: Bank Indonesia Circular Number 30/3/UPPB 30 April 1997)

BJB will only perform the acquisition of PD BPR LPK that fall within the criteria of healthy bank or moderately healthy. After the bank predicate is known, BJB will perform valuation to the targeted PD. BPR LPK.

In choosing a target firm and to decide the appropriate price to pay for the acquisition, BJB must do the valuation on the target firm's assets. In this research, the target company is a financial institution that has the main activity of granting loan. From the Basel Committee news, it is known that equity is the most important measure of a bank's ability to pay back creditors. It turns out that bank equity also plays a critical role in valuing bank.

Bank valuation needs a valuation model that ignores cash flow and focuses instead on bank's shareholder equity. This is because banks have mark-to-market accounting, which makes book value a surprisingly reliable indicator of current value (Fink, 2010). Because of those reason, book value valuation is used to estimate the value of the target firm's asset.

Book value is a straightforward concept. For financial companies like banks, consumer loan concerns, brokerages and credit card companies, the book value is extremely relevant. In the banking industry, takeovers are often priced based on book value (Giddy, 2006).

TABLE III. THE CALCULATION FORMAT FOR BOOK VALUE VALUATION

Book Value Valuation' Calculation Format	
	Adjusted Total Asset
-	Total Liabilities
=	Book Value

(Source: Deev, 2011)

Bank's total assets that reflected in the balance sheet are not the real value of the bank assets. Some adjustments are needed to know the real value of the bank's assets. Those adjustments are:

1. Allowance for productive asset disposal
This account exists as a buffer if there are non-performing loan that could not be collected from the debtors. For the valuation purposes, the allowance for productive asset disposal must be added back to the total asset.
2. Non-performing loan
Non-performing loan are the loans that meet the qualification of less liquid debt, doubtful

debt and bad debt. For the valuation purposes, the non-performing loan must be deducted from the total assets.

3. Collateral
   Bank will take of debtor's collateral, in the event of bank's debtor defaulted. The debtor's assets that were pledged as collateral are not recorded in the bank's balance sheet. Then, for making a better valuation, the bank's total asset must be added with the amount of collateral from the non-performing loan debtor's.

TABLE IV. THE CALCULATION FORMAT FOR ADJUSTED TOTAL ASSET

Adjusted Total Asset Calculation Format	
	Total Asset
+	Allowance for productive asset disposal
-	Non Performing Loan
+	Collateral
=	Adjusted Total Asset

(Source: Bank Indonesia Regulation Number 13/26/PBI/2011)

For the alternative acquisition value, BJB can use firm value that is calculated with discounted cash flow valuation method. BJB can use either book value valuation or discounted cash flow valuation as an acquisition cost range for negotiation in the acquisition process, to get the most efficient acquisition cost. In discounted cash flow method, the company value can be estimated by forecasting future performance of the business and measuring the surplus cash flow generated by the company. The surplus cash flows and cash flow shortfalls are discounted back to a present value and added together to the company's terminal value to arrive at a valuation.

III. BUSINESS SOLUTION

In this research, there are two scenarios that can be used in the case of BJB acquisition model for PD. BPR LPK in West Java.

A. Scenario A: Acquisition of Twenty One PD. BPR LPK

In scenario A, BJB will directly acquire each of twenty-one PD. BPR LPK in West Java. Before the acquisition, BJB will conduct due diligence that includes financial statement analysis to assess the bank soundness. After the bank soundness assessment, BJB should calculate the firm value of each PD. BPR LPK that will be acquired. After the calculation, BJB will have to make a decision regarding the acquisition cost.

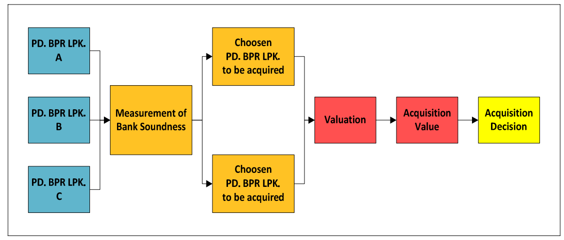

Figure 2. Acquisition Process for Scenario A

B. Scenario B: Acquisition of Three Merged PD. BPR LPK

In scenario B, BJB will acquire three merged PD BPR LPK located in Cianjur, Garut, and Subang Regency.

Before the acquisition, BJB will ask all PD BPR LPK in the same regency to merge into one PD BPR LPK. The name of the new merged PD BPR LPK is chosen from one of the existing PD BPR LPK that will also be the headquarter office. The other bank will be branch offices.

After the merger, BJB will conduct due diligence that includes financial statement analysis for measuring the bank soundness. After the bank soundness measurement, BJB should calculate the firm value of each PD. BPR LPK that will be acquired. After the calculation, BJB will have to make a decision regarding the acquisition cost.

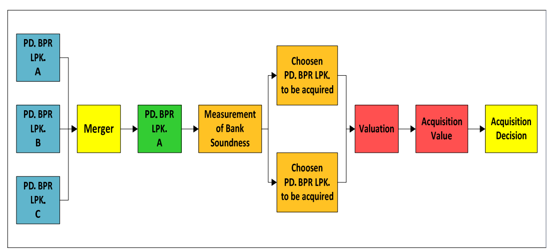

Figure 3. Acquisition Process for Scenario B

C. Analysis of Business Solution

BJB already have 15% share in all PD. BPR LPK. To make BJB hold 51% of the share ownership, they have to add 36% of share ownership.

The acquisition cost is obtained by calculating 36% of the bank's value and added by 36% of accumulated loss, if any. BJB has 50 billion rupiah budget for the the acquisition. The total acquisition costs that are calculated with book value valuation method for the scenario A is Rp 13,768,151,177.

TABLE V. ACQUISITION COST FOR SCENARIO A

No	List of PD BPR LPK	36% of Book Value	36% of Accumulated Loss Covering	Total Acquisition Cost
1.	PD BPR LPK Cibeber	473,118,893	301,170,600	774,289,538
2.	PD BPR LPK Cidaun	947,921,163	0	947,921,163
3.	PD BPR LPK Pacet	877,322,311	0	877,322,311
4.	PD BPR LPK Sindangbarang	1,342,159,327	0	1,342,159,327
5.	PD BPR LPK Sukanagara	971,158,741	0	971,158,741
6.	PD BPR LPK Warungkondang	1,836,938,087	0	1,836,938,087
7.	PD BPR LPK Banjarwangi	486,544,870	0	486,544,870
8.	PD BPR LPK Cibalong	345,709,759	218,446,920	564,156,679
9.	PD BPR LPK Cikajang	511,279,568	0	511,279,568
10.	PD BPR LPK Garut Kota	744,716,121	0	744,716,121
11.	PD BPR LPK Sukawening	853,413,077	0	853,413,077
12.	PD BPR LPK Jalan Cagak	837,072,631	13,449,600	850,522,231
13.	PD BPR LPK Pagaden	1,202,756,362	0	1,202,756,362
14.	PD BPR LPK Purwadadi	388,231,147	252,808,560	641,039,707
15.	PD BPR LPK Cisalak	1,163,933,395	0	1,163,933,395
			Total Acquisition Cost	13,768,151,177

The total alternative acquisition cost that are calculated with discounted cash flow valuation method for scenario A is Rp 122,286,450,602.

TABLE VI. ALTERNATIVE ACQUISITION COST FOR SCENARIO A

No	List of PD BPR LPK	36% of Firm Value	36% of Accumulated Loss Covering	Total Acquisition Cost
1.	PD BPR LPK Cibeber	120,164,401	301,170,600	421,335,001
2.	PD BPR LPK Cidaun	376,211,456	0	376,211,456
3.	PD BPR LPK Pacet	10.980.313.650	0	10.980.313.650
4.	PD BPR LPK Sindangbarang	5.450.630.579	0	5.450.630.579
5.	PD BPR LPK Sukanagara	971.158.741	0	971.158.741
6.	PD BPR LPK Warungkondang	12.398.308.066	0	12.398.308.066
7.	PD BPR LPK Banjarwangi	1.967.459.009	0	1.967.459.009
8.	PD BPR LPK Cibalong	12.031.427.674	218,446,920	12.249.874.594
9.	PD BPR LPK Cikajang	2.710.006.602	0	2.710.006.602
10.	PD BPR LPK Garut Kota	632.160.367	0	632.160.367
11.	PD BPR LPK Sukawening	5.571.705.037	0	5.571.705.037
12.	PD BPR LPK Jalan Cagak	32.303.598.742	13,449,600	32.317.048.342
1	PD BPR		0	32.509.8

3.	LPK Pagaden	32.509.829.872		29.872
14.	PD BPR LPK Purwadadi	1.026.474.805	252,808,560	1.279.283.365
15.	PD BPR LPK Cisalak	2.451.125.921	0	2.451.125.921
			Total Acquisition Cost	**122,286,450,602**

The total acquisition costs that are calculated with book value valuation method for the scenario B is Rp18,184,774,278. The total alternative acquisition cost that are calculated with discounted cash flow valuation method for scenario A is Rp 52,218,056,857.

TABLE VII. ACQUISITION COST FOR SCENARIO B

No.	List of PD BPR LPK	36% of Book Value	36% of Accumulated Loss Covering	Total Acquisition Cost
1.	PD BPR LPK in Cianjur	6,466,410,364	3,873,594,960	10,340,005,324
2.	PD BPR LPK in Garut	3,839,052,744	87,806,520	3,926,859,264
3.	PD BPR LPK in Subang	2,977,613,090	940,296,600	3,917,909,690
			Total Acquisition Cost	**18,184,774,278**

TABLE VIII. ACQUISITION COST FOR SCENARIO B

No.	List of PD BPR LPK	36% of Book Value	36% of Accumulated Loss Covering	Total Acquisition Cost
1.	PD BPR LPK in Cianjur	40,499,692,943	3,873,594,960	44,373,2
2.	PD BPR LPK in Garut	3,839,052,744	87,806,520	3,926,8
3.	PD BPR LPK in Subang	2,977,613,090	940,296,600	3,917,9
			Total Acquisition Cost	**52,218,0**

After the analysis of two acquisition scenarios, both scenarios can be compared in the term of acquisition cost and bank's networks.

In scenario A, there are 5 banks that are not healthy, thus those banks cannot be acquired. If BJB still want to acquire those banks, first BJB must improve the management until the banks become healthy banks. The other sixteen banks that are moderately healthy and healthy banks can be acquired by BJB. These sixteen different banks will be managed by sixteen different managements.

In scenario B, all the banks in the same regency merged into one bank. The totals are three merged banks in three different regencies. These three banks have a healthy predicate, so all of them can be acquired. In Cianjur Regency, there will be one headquarter and eight branches. In Garut Regency, there will be one headquarter and six branches. In Subang Regency, there will be one headquarter and four branches. In total, there will be only three different managements.

The total acquisition cost and the total alternative acquisition cost for scenario B is higher than the scenario A. However, the cost is still below the acquisition plan budget.

TABLE IX. COMPARISON BETWEEN SCENARIO A AND SCENARIO B

	Scenario A	Scenario B
Acquisition budget	Rp 50,000,000,000	Rp 50,000,000,000
Scenario	Acquisition	Merger
Acquisition Process	One by one acquisition	With a merger beforehand
Number of banks to be acquired	16 banks	3 banks (3 headquarter office, 18 branches)
Number of banks	5 banks	0 banks

rejected from the acquisition plan		
Complexity	Capital Restructuring	Capital Restructuring & Management Control
Total acquisition cost	Rp 13,768,151,177	Rp 18,184,774,278
Alternative total acquisition Cost	Rp 122,286,450,602	Rp 52,218,056,857

BJB have a plan to expand their bank networks and to expand their credit for the small and micro enterprise. Scenario B is preferred to be the best scenario to support the company's plan, because with this scenario BJB will have more channels in order for them to give more credit loans. In scenario B, BJB will have 21 channels, whether in scenario A, BJB will only have 16 channels.

IV. Conclusion and Implementation Plan

Acquisition strategy is a part of corporate development strategy. Acquisition is a risky event. The decision makers need to have a high level of comfort. There are several steps that must be done by the acquiring company in the acquisition process (Frankel, 2005):

1. Develop a corporate development team
   To have a successful acquisition, the acquiring company must develop a solid corporate development team that consists of multi department skills. Common corporate development teams includes legal, finance and accounting, general management, and a consultant.

2. Approval process
   The corporate development team must communicate and get formal approval from the shareholders, board of directors and management. The acquisition also has to get informal approval from the employees, because they will be heavily involved in the process.
3. Deal process
   The deal process includes due diligence, valuation, integration, negotiation, and financing. In the negotiation, both the acquiring and the acquired companies will make a contract. In this process, investment bankers, lawyers, consultants, or other advisors can be used to give advice.
4. Signing and closing the deal
   After the negotiation, both parties will sign the purchase agreement. The purchase agreement may include the purchase price, method of payment, representations and warranties made by both sides, and also terms of indemnification.
5. Post closing
   After closing the deal, the acquiring company needs to make public and private statements. The private statement is intended for the company's employee and it is released by the public relations. The public statement is intended for the shareholders and it is released by the investor relations.

After doing an analysis of the acquisition plan, the conclusions are:

1. Scenario B is chosen to be the best scenario for the acquisition. In scenario B, BJB will acquire the already merged PD BPR LPK in every regency in West Java.
2. After doing the analysis on bank soundness, it is known that the merged PD BPR LPK in Cianjur and Subang Regency have healthy predicate and the merged PD BPR LPK in Garut Regency has moderately healthy predicate.
3. BJB will only acquire those banks with the moderately healthy predicate. From the previous analysis, it is concluded that BJB can acquired all the merged PD BPR LPK in Cianjur, Garut, and Subang Regency.
4. The value of each merged PD BPR LPK are:
   - PD BPR LPK in Cianjur Regency: Rp17,962,251,011.
   - PD BPR LPK in Garut Regency: Rp10,664,035,399.
   - PD BPR LPK in Subang Regency: Rp8,271,147,472.
5. The total acquisition cost is Rp18,184,774,278 consist of:
   - PD BPR LPK in Cianjur Regency: Rp10,340,005,324.
   - PD BPR LPK in Garut Regency: Rp3,926,859,264.
   - PD BPR LPK in Subang Regency: Rp3,917,909,690.

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